MULTIMEDIA UNIVERSITY

STUDENT ID NO.

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

PEM0024 – ESSENTIALS OF MICROECONOMICS

(All sections / Groups)

28 FEBRUARY 2020
3.00 p.m. - 5.00 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

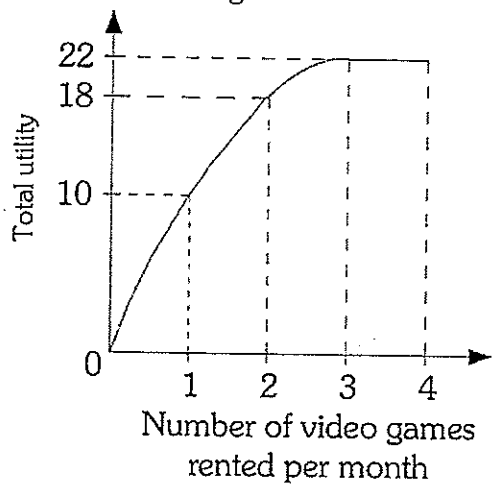
1. This question paper consists of **ELEVEN (11)** printed pages including cover with **TWO (2)** sections as follows:
   - **Section A:** Multiple-choice Questions (40 Marks)
   - **Section B:** Structured Questions (60 Marks)
2. Marks are shown at the end of each question.
3. Answer **ALL** questions in **Sections A** and **B**.
4. The answers for **Section A** should be shaded on the Multiple-choice Answer Sheet. The answers for **Section B** should be written in the Answer Booklet.

SECTION A: MULTIPLE-CHOICE QUESTIONS (40 MARKS)
Instructions: Answer ALL questions in this section. Shade the answers on the Multiple-choice Answer Sheet.

1. Marginal utility is the _____ satisfaction gained by consuming _____ of a good.
A. total; all units
B. total; one more unit
C. additional; all units
D. additional; one more unit

Question 2 refers to Figure 1 below.

Figure 1



2. Refer to **Figure 1** above. The marginal utility of the second video game rental is _____.
A. 8
B. 10
C. 25
D. 40

3. When marginal utility is decreasing but positive, total utility is _____.
A. increasing at a decreasing rate
B. increasing at an increasing rate
C. decreasing at a decreasing rate
D. decreasing at an increasing rate

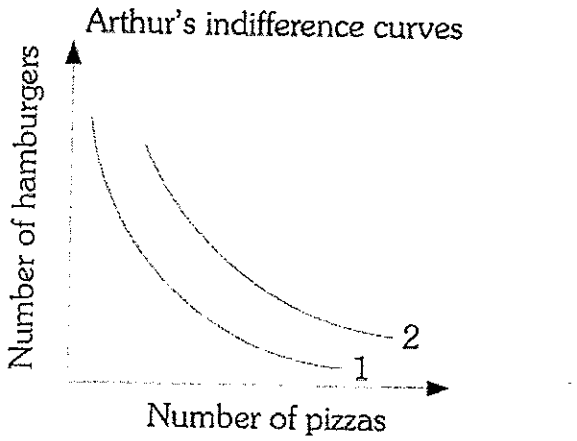
Continued...

4. The law of _____ states that the utility gains for consumer from successive units of a particular product diminishes as total consumption of the product increases.
A. consumer choice
B. diminishing marginal utility
C. utility maximization
D. infinite demand

5. An indifference curve explains _____.
A. the maximum utility that can be achieved for consuming a product
B. the maximum utility that can be achieved for a given budget
C. the combination of two goods giving equal utility to a consumer
D. the best number of consumption between prices of good

Question 6 refers to Figure 2 below.

Figure 2



6. Refer to **Figure 2** above. If Arthur moves from indifference curve 1 to indifference curve 2, then Arthur's _____.
A. marginal utility increases
B. total utility increases
C. total income decreases
D. prices of the goods increase

7. Which of the following statements is **NOT** true with regard to the standard properties of indifference curves?
A. Indifference curves are downward sloping.
B. Indifference curves are bowed outward.
C. Indifference curves do not cross each other.
D. Higher indifference curves are preferred to lower ones.

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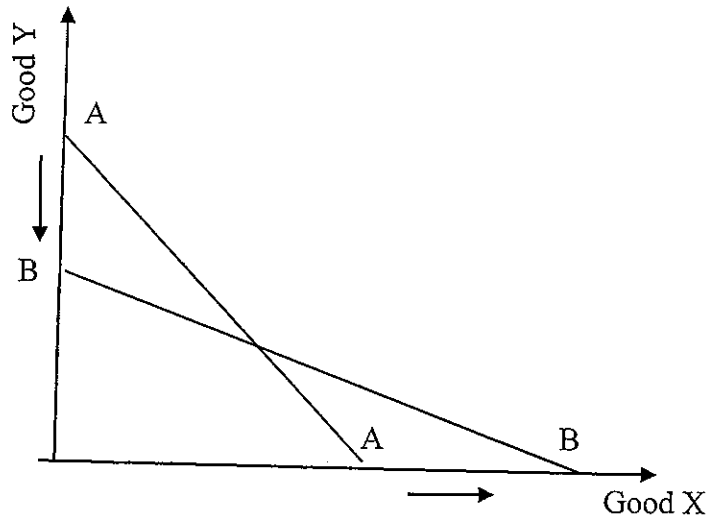
Question 8 refers to Figure 3 below.

Figure 3



8. Referring to **Figure 3** above, AA is the initial budget line and BB is the new budget line. Which of the following changes might have occurred?

A. P_X decreased, P_Y is constant, income increased.
B. P_X increased, P_Y decreased, income in constant.
C. P_X decreased, P_Y increased, income is constant.
D. P_X is constant, P_Y increased, income decreased

9. An increase in the income of a buyer will move his/her _____.

A. budget line to the right
B. budget line to the left
C. indifference curve to the left
D. indifference curves to the right

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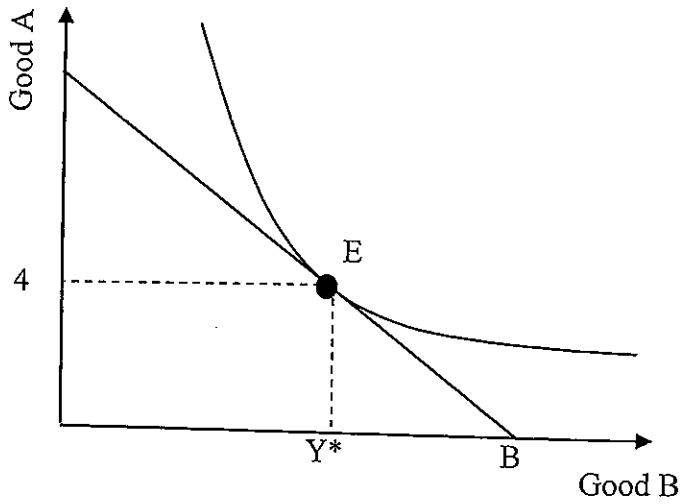
Question 10 refers to Figure 4 below.

Figure 4



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10. Referring to **Figure 4**, assuming the consumer's income is USD80, calculate the value of Y* if the price of A is USD10 and the price of B is USD20.
A. 5 units
B. 4 units
C. 3 units
D. 2 units

11. Which of these assumptions is often realistic for a firm in the short run?
A. The firm can vary both the size of its factory and the number of workers it employs.
B. The firm can vary the size of its factory but not the number of workers it employs.
C. The firm can vary the number of workers it employs but not the size of its factory.
D. The firm can vary neither the size of its factory nor the number of workers it employs.

12. Suppose that Christine owns an online business. She uses only two inputs in her business: her hours worked (labour) and a computer (capital). In the short run, Christine most likely considers _____.
A. both labour and capital to be fixed
B. both labour and capital to be variable
C. capital to be variable and labour to be fixed
D. labour to be variable and capital to be fixed

13. When total product is maximized, marginal product _____.
A. and average product are zero
B. is positive, but average product is zero
C. is zero, but average product is positive
D. and average product are positive

Continued...

14. If marginal product is greater than average product, then _____.
A. average product must be decreasing
B. marginal product must be decreasing
C. marginal product must be increasing
D. marginal product could either be increasing or decreasing

15. The average fixed cost is equal to the _____.
A. total cost divided by total output
B. total variable cost divided by total output
C. marginal cost divided by total output
D. total fixed cost divided by total output

16. When marginal costs are below average total costs, _____.
A. average fixed costs are rising
B. average total costs are falling
C. average total costs are rising
D. average total costs are minimized

17. In the short run stages of production, which stage does a rational producer prefer?
A. Stage 1.
B. Stage 2.
C. Stage 3.
D. All the stages.

18. Economic or supernormal profit is equal to total revenue minus the _____.
A. explicit cost of producing goods and services
B. explicit cost and the implicit cost
C. accounting cost of producing goods and services
D. implicit cost of producing goods and services

19. A firm facing economies of scale over a range of output will have a _____.
A. declining long-run average cost curve
B. rising long-run average cost curve
C. fluctuating long-run average cost curve
D. declining short-run average cost curve

20. Which of the following is not an internal source of economies of scale?
A. Economies of concentration.
B. Economies of labour.
C. Economies of financial.
D. Economies of technical.

Continued...

21. Which of the following is a characteristic of perfect competition?
A. Barrier to entry.
B. Homogeneous products.
C. Firms are price maker.
D. One seller in the whole industry.

22. The perfectly competitive firm maximizes profit when it produces output up to the point where _____.
A. price equals average variable cost.
B. marginal revenue equals average revenue.
C. marginal cost equals total revenue.
D. marginal cost equals marginal revenue.

23. Mrs. Smith operates a business in a competitive market. The current market price is USD8.50. At her profit- maximizing level of production, the average variable cost is USD8.00, and the average total cost is USD8.25.

Mrs. Smith should _____.

A. shut down her business in the short run but continue to operate in the long run
B. continue to operate in the short run but shut down in the long run
C. continue to operate in both the short run and long run
D. shut down in both the short run and long run

24. When new firms enter a perfectly competitive market, _____.
A. demand increases
B. the market supply curve shifts right
C. the market supply curve shifts left
D. existing firms will increase prices to keep the new firms from entering

25. In the long run, _____.
A. perfectly competitive firms' profits are zero
B. perfectly competitive firms' variable costs are zero
C. perfectly competitive firms' ATC curves shift upward or downward to ensure that all demand is satisfied
D. the number of perfectly competitive firms in the market is fixed

26. Which of the following represents the characteristics of monopoly?
A. Price taker.
B. Produce homogeneous products.
C. Sole producer.
D. Free entry and exit.

Continued...

27. Which of the following is **NOT** a barrier to entry in a monopolized market?
A. A single firm is very large.
B. The government gives a single firm the exclusive license to produce some good.
C. The costs of production make a single producer more efficient (and experience economies of scale) than a large number of producers.
D. An important resource is owned by a single firm.

28. A monopolist maximizes profit by producing the quantity at which _____.
A. marginal revenue equals marginal cost.
B. marginal revenue equals price.
C. marginal cost equals price.
D. marginal cost equals demand.

29. Because monopoly firms do not have to compete with other firms, the outcome in a market with a monopoly is often _____.
A. not in the best interest of society.
B. one that fails to maximize total economic well-being.
C. less efficient than perfect competition
D. more efficient than perfect competition.

30. First, second, and third degree price discrimination is the business practice of
A. bundling related products to increase total sales.
B. selling the same good at different prices to different customers.
C. pricing above marginal cost.
D. hiring marketing experts to increase consumers' brand loyalty.

31. Which of the following is a characteristic of monopolistic competition?
A. Ownership of a key resource by a single firm.
B. Easy entry and exit.
C. Identical product.
D. Patents.

32. In the long run, monopolistic competitive firms earn _____.
A. supernormal profit
B. subnormal profit
C. normal profit
D. abnormal profit

33. Which of the following industries is the best example of a monopolistic competition?
A. Copper industries.
B. Shampoo industries.
C. Electricity suppliers.
D. Petrol suppliers.

Continued...

34. A monopolistically competitive firm and a(n) _____ firm earn the same long run profit.
A. perfectly competitive
B. monopolist
C. oligopolist
D. duopolist

35. The demand curve of a monopolistic competition firm is _____ than a monopoly due to the existence of _____ in monopoly.
A. more elastic; product differentiation
B. more elastic; homogeneous goods
C. less elastic; complementary goods
D. less elastic; advertisement expenditure

36. A form of industry structure characterized by a few firms each large enough to influence market price is _____.
A. perfect competition.
B. monopolistic competition.
C. oligopoly.
D. monopoly.

37. A(n) _____ industry is characterized by mutual interdependence.
A. perfectly competitive
B. monopolistic
C. monopolistically competitive
D. oligopolistic

38. Products _____ in the oligopolistic market structure.
A. are always homogeneous
B. are always differentiated
C. are always unique
D. may be homogeneous or differentiated

39. The kinked demand curve explains the concept of _____.
A. price stability
B. price rigidity
C. barrier to entry
D. few sellers in the market

40. According to the assumption of the kinked demand curve, when one oligopolistic firm increases its price, other oligopolistic firms will _____.
A. increase their prices as well
B. not follow, but maintain the same prices as before
C. increase advertising expenditure
D. exit from the industry

Continued...

SECTION B: STRUCTURED QUESTIONS (60 MARKS)

Instructions: Answer ALL questions in this section in your Answer Booklet.

Question One (20 marks)

Based on **Table 1**, answer the following questions.

Table 1

Ice Cream (Cup) (a)	Total Utility (b)	Marginal Utility (c)
1	8	-
2	14	
3	18	
4	20	
5	20	
6	18	

(a) Copy **Table 1** in your Answer Booklet. Calculate the marginal utility at every cup of ice cream and fill in Column (c).

(5 marks)

(b) Illustrate the total utility and marginal utility curve on a single set of axes.

(15 marks)

Question Two (20 marks)

(a) Explain **TWO (2)** internal and **TWO (2)** external sources of diseconomies of scale.

(10 marks)

(b) Show the economies and diseconomies of scale, as well as the decreasing, constant and increasing cost industry points using the long-run average cost curve diagram.

(10 marks)

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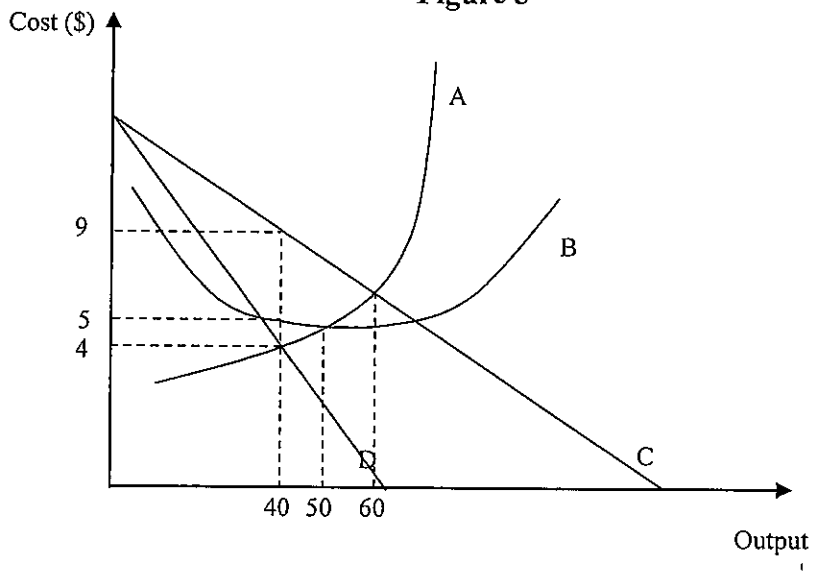
Question Three (20 marks)

Figure 5 below represents the short-run equilibrium of a monopoly.

Figure 5



(a) Label the following curves in the diagram: A, B, C, and D. (4 marks)

(b) Determine the profit-maximising price and quantity. (4 marks)

(c) Calculate the total profit or loss experienced by the firm. (6 marks)

(d) List **THREE (3)** characteristics of this market structure. (6 marks)

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